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Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

CERTIFICATE OF SERVICE

I, Linda M. Blair, hereby certify that on this 4th day of August 2000, I caused a copy of the foregoing Reply Comments of Global Naps, Inc. in Docket Nos. 96-98, 99-68 to be sent via first-class mail, postage prepaid, to the following:

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costs are actually *greater* than the ILEC's costs. Specifically, 47 CFR § 51.711 of the FCC's rules provides that:

> A state commission may establish asymmetrical rates for transport and termination of local telecommunications traffic only if the carrier other than the incumbent LEC (or the smaller of two incumbent LECs) proves to the state commission on the basis of a cost study using the forward-looking economic cost based pricing methodology described in Secs. 51.505 and 51.511, that the forward-looking costs for a network efficiently configured and operated by the carrier other than the incumbent LEC (or the smaller of two incumbent LECs), *exceed the costs incurred by the incumbent LEC* (or the larger incumbent LEC), and, consequently, that such that a higher rate is justified.

Emphasis supplied.

The requirement that ILECs compensate CLECs for terminating ISP-bound calls will not diminish CLEC interest in the residential exchange service market.

42. Dr. Taylor argues that payment of intercarrier compensation for ISP-bound calls — particularly at a rate that exceeds the CLEC's costs of terminating those calls by some measure — distorts CLECs' competitive incentives, somehow converting end user customers from (potential) assets to (potential) liabilities. This is simply not true. In fact, as I have previously noted,[16] CLEC participation in call termination has forced ILECs to reduce their own call termination charges, enabling CLECs to retain a greater portion of their total revenue from *outward* calling services, such as basic residential and basic business exchange service.

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16. Para. 33, *supra*.

43. Dr. Taylor's presentation in this regard completely ignores the strong efficiency-enhancing effects of symmetrical ILEC-focused reciprocal compensation rates. Instead, looking at the CLECs' recent success at competing for the business of firms that receive calls, he asserts that payment of compensation for ISP-bound calls converts "normal" residence end user customers from potential assets to be competed for to potential liabilities to be avoided. This claim is somewhere between misleading and false. To the extent that there is any incentive to avoid customers that make more calls than they receive, that arises from factors that have nothing to do with the fact that it is ISPs, as opposed to other types of businesses, that are receiving an increasing amount of traffic from end users.

44. Dr. Taylor seems to be saying that if ILECs are required to pay reciprocal compensation to CLECs in excess of the CLECs' actual costs, then CLECs will simply focus all of their attention on handling ISP-bound traffic and ignore the residence market altogether. For this contention to be valid, the potential amount of capital that CLECs are prepared to invest *in all local exchange market segments* would necessarily have to be fixed. In effect, Dr. Taylor is contending that the profitable inward calling business would divert capital and entry away from what he contends is the less-profitable residential service business.

45. Dr. Taylor's analysis fails as a result of two key flaws in his reasoning. First, the amount of capital potentially available for investment in local exchange markets is by no means fixed; capital will enter the CLEC business in any segment that is profitable. If the residential market is profitable as an absolute matter (even if less profitable than the inbound

call termination business), capital will still enter and the market will be served. On the other hand, the ILECs themselves have raised enormous barriers to entering the residential market segment because these ILECs have often set their UNE rates in excess of their retail rates or, if less, sufficiently close to their retail rates such that no competitor would confront sufficient margin to make its entry sustainable. That, of course, also has nothing whatever to do with conditions extant in the reciprocal compensation area. If the ILECs have successfully worked to discourage entry in the residential segment by manipulating their wholesale and retail price levels and the differential between them, then entry will not occur there whether or not the inbound call termination segment is profitable.

46. As long as the ILEC's rate for flat-rated local calling (together with any portable universal service subsidies and other revenues) is high enough to cover the CLEC's cost of handling the local usage that its end users, on average, generate — including calls to ISPs — then CLECs have an incentive to seek the business of residence customers as a whole by offering a flat-rated local calling plan comparable to that offered by the ILEC. And as long as the customers that the CLEC garners have the same average usage characteristics as the ILEC's customer base, the CLEC will make money on the flat-rated calling plan to (essentially) the same extent that the ILEC does.[17]

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17. A LEC's revenues from flat-rate residence service are by no means confined to the basic dial tone rate and associated flat-rate usage elements. In fact, additional revenues from switched access, intraLATA toll, interLATA toll, and most particularly vertical features, when combined with the basic monthly dial tone line rate, will frequently convert an apparent "loss" into a substantial profit. Additionally, ILECs enjoy considerable revenues from their

(continued...)

47. The discussion above reveals what Dr. Taylor is really complaining about: To the extent that ISP-bound calls are treated as local calls as far as the end user is concerned, it is obvious that an increase in calls to ISPs — just like any other increase in calls — is not cost-free to the LEC serving the end user, whether that LEC terminates ISP-bound calls directly on its own network or hands them off to one or more CLECs for termination. (It is also important to recognize that along with the costs associated with increasing Internet traffic have come enormous revenue increases in sales of additional lines, such that no ILEC has been able to demonstrate an overall decline in profits as a result of increased Internet traffic.)

48. Note, however, that this complaint really has nothing to do, economically, with reciprocal compensation for ISP-bound calls. In a monopoly environment, the ILEC provides connectivity between the end user and the ISP, incurring both originating and terminating switching costs and inter-switch transport costs. Under the ESP Exemption, these costs are to be recovered from charges to end users, not charges to the ISP. If end user charges are fixed (e.g., under a flat-rated calling plan that an ILEC may have committed to "freeze" as part of an incentive regulation arrangement), then a change in customer calling patterns leading to more and longer calls to ISPs will increase the ILEC's costs and decrease its profit margins

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17. (...continued)
monopoly directory publishing business, revenues that in many jurisdictions are booked "below the line," that are not available to CLECs yet contribute dramatically to overall ILEC profitability. For example, US West's 1999 Annual Report indicates that it directory publishing segment, while responsible for only 11% of the Corporation's total revenues, represented fully 39% of its 1999 profits! *US West, Inc. 1999 Annual Report*, Notes to Consolidated Financial Statements, at F-25.